

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2017/2018

BFN2044 – BANK MANAGEMENT

(All sections / Groups)

6 JUNE 2018

2.30 p.m – 4.30 p.m

(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of 3 pages with 4 questions only.
2. Attempt ALL questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answer in the Answer Booklet provided.

Question 1 (25 marks)

- (a) Supposed a banker tells you that his bank in the year just completed had total interest expenses on all borrowings of RM12 million and noninterest expense of RM5 million, while interest income from earning assets totaled RM20 million and noninterest revenues added to a total of RM4 million. Suppose further that assets amounted to RM560 million of which earning assets represented 65 percent of total assets, while total interest-bearing liabilities amounted to 55 percent of the bank's total assets.

Based on these information, calculate the following:

- i. Net Interest Margin (2 marks)
 - ii. Noninterest Margin (2 marks)
 - iii. Earnings Spread (3 marks)
 - iv. Earnings Base (3 marks)
 - v. Supposed the bank's interest revenues rise by 8 percent and its interest costs as well as earning assets increase 10 percent. What will happen to this bank's net interest margin? (5 marks)
- (b) Define the following in bank's operations.
- i. Asset management strategy. (4 marks)
 - ii. Liability management strategy. (3 marks)
 - iii. Funds management strategy (3 marks)

Question 2 (25 marks)

- (a) TM bond currently sells for RM920 based on a par value of RM1,000 and promises RM120 in interest for three years before being retired. Yields to maturity on comparable-quality securities are currently at 12 percent.
- i. Based on the information given above, calculate the bond's duration. (10 marks)
 - ii. Suppose interest rates in the market fall to 10 percent. What will be the approximate percent change in the bond's price? (5 marks)
- (b) Liquidity management is one of the crucial activities in bank management. Explain **TWO (2)** steps that are needed to carry out the structure of funds approach to liquidity management. (10 marks)

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Question 3 (25 marks)

- (a) Banks invested significant portion of their funds in investment securities to reduce their reliance on loan. Illustrate with a diagram, **FIVE (5)** maturity strategies that banks employ in managing their investment portfolios. (20 marks)
- (b) Since the recent announcement by Central Bank, the top management of EXPERT Bank have to revise its interest rates that they quoted to the borrower. Suppose a bank estimates that the marginal cost of raising loanable funds to make a RM10 million loan to one of its corporate customers is 4 percent, its nonfunds operating costs to evaluate and offer this loan are 0.5 percent, the default-risk premium on the loan is 0.375 percent, a term-risk premium of 0.625 percent is to be added, and the desired profit margin is 0.25 percent. What loan rate should be quoted to this borrower according to cost-plus pricing model? (5 marks)

Question 4 (25 marks)

- (a) Suppose PROFIN Bank's liquidity division estimates that it holds RM21 million in hot money deposits and other IOUs against which it will hold an 80 percent liquidity reserve, RM55 million in vulnerable funds against which it plans to hold a 25 percent liquidity reserve, and RM114 million in stable or core funds against which it will hold a 5 percent liquidity reserve. The bank expects its loans to grow 8 percent annually; its loans currently total RM117 million but have recently reached RM136 million.

If reserve requirements on liabilities currently stand at 3 percent, what is the amount of liquidity that this bank needed?

(10 marks)

- (b) As a credit officer in I-Bank, you are given the following scenarios:

Scenario 1

A business borrower projects that it will experience net profits of RM2.1 million, compared to RM2.7 million the previous year, and will record depreciation and other noncash expenses of RM0.7 million this year versus RM0.6 million last year.

Scenario 2

Suppose sales revenue rises by RM0.5 million, cost of goods sold decreases by RM0.3 million, while cash tax payments increase by RM0.1 million and noncash expenses decrease by RM 0.2 million.

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Based on these scenarios:

- i. Calculate the firm's projected cash flow for Scenario 1 and 2. (4 marks)
- ii. Is the firm's cash flow in Scenario 1 and 2 rising or falling? (4 marks)
- iii. What would be the best decision for you to take in order for you to lend money to these firms? Why? (7 marks)

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